

Quarterly Review of Financial Markets and Outlook

2026/Q3

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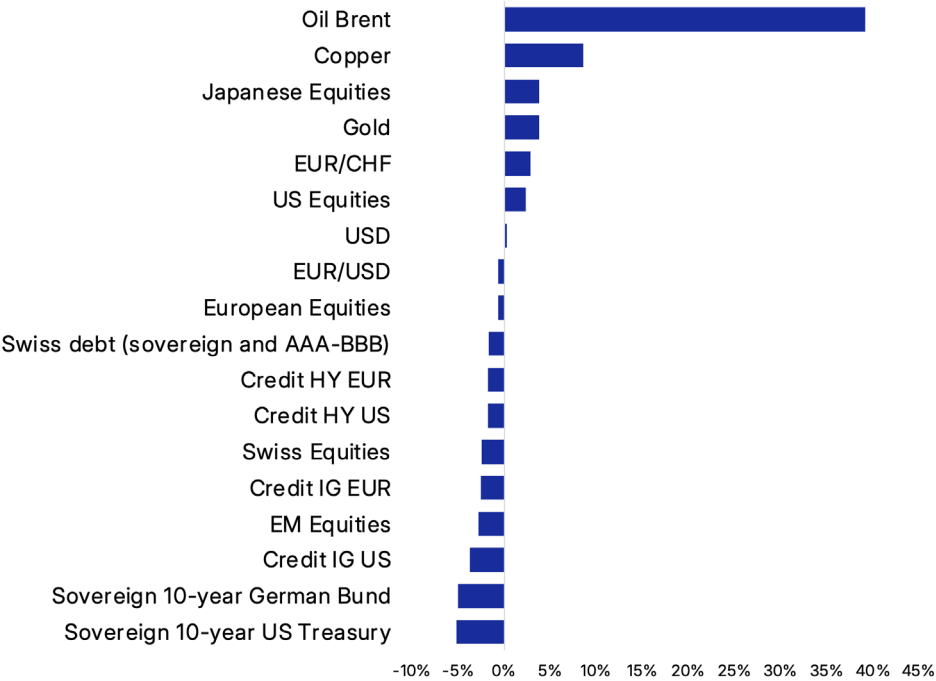
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Overview

MAIN ASSET CLASSES

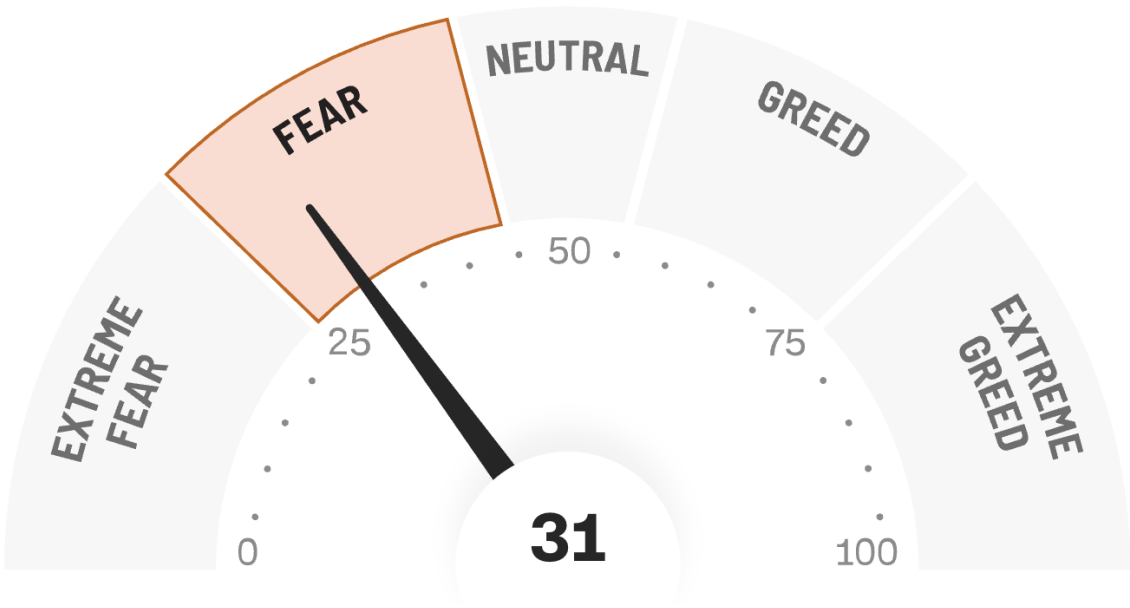
3-MONTHS PERFORMANCE



Source: Silex / Factset, 30/9/2026.
Past performance is not a guarantee of future performance.

FEAR & GREED INDEX

WHAT EMOTION IS DRIVING THE MARKET NOW?



Last updated Oct 1 at 6:54:46 AM ET

Source: CNN Business, 01/10/2026.
Past performance is not a guarantee of future performance.

Macroeconomics

United States: “Warsh pulls the trigger”

The renewed pressure on energy prices hit the US economy just as activity was accelerating. Second-quarter growth was revised from +1.5% to +2.2% annualised q/q, while final sales to private domestic purchasers surged by +4.6%, their strongest pace since 2023.

The ISM manufacturing index reached 55.6 in July, its highest level in more than four years, before the flash composite PMI climbed to 58.4 in September, the highest since 2022, with AI-related investment still one of the main engines of growth.

The labour market briefly raised concerns in the middle of the summer, with payrolls declining in July, before the August rebound (+162k jobs, alongside revisions that erased July's negative print) put those fears to rest.

Unemployment fell back to 4.1%, from 4.3% in the spring, against a backdrop of low but largely voluntary labour-force participation. One major disconnect remains: consumer confidence. The Conference Board index fell in September to its lowest level since 2014, even as retail sales rose by +1.2% m/m in August. Americans say they are worried, but they keep spending.

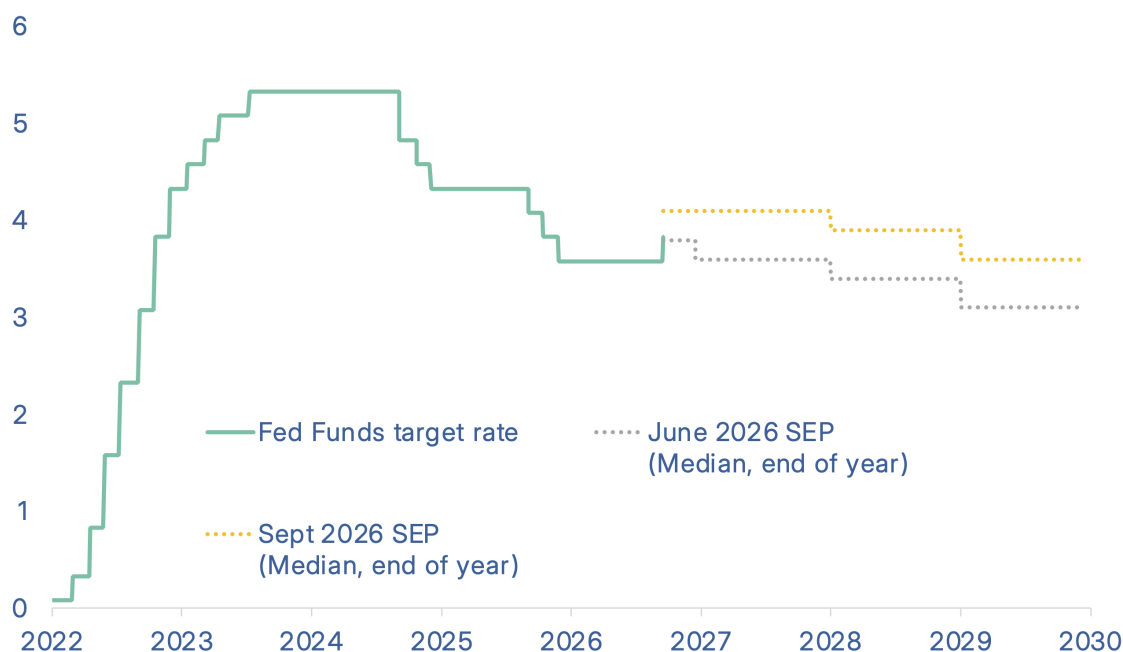
On inflation, the quarter started well, with June CPI (+3.5% y/y versus +3.8% expected) confirming that May had marked the peak. But PCE inflation, the Fed's preferred gauge, proved more stubborn, and **Kevin Warsh never hid his view that the progress made over the summer was insufficient.**

After a July FOMC meeting in which three voters were already calling for a hike, the Fed unanimously raised the Fed funds target range by 25bp in September to 3.75%-4.00%.

The projections were also tightened, with 2026 inflation revised up to +3.7% and unemployment down to 4.1%, while the median dot now points to another hike by December followed by an unchanged policy rate of 4.1% in 2027. The end of the quarter muddled the picture, however: methodological revisions by the BEA lowered July PCE inflation from +3.7% to +3.4%, with core PCE revised to +3.0%, levels that were confirmed in August. The improvement is more about the level than the direction, with more than half of PCE components still rising by more than 3%, but it suggests that the Fed may be overestimating year-end inflation in its latest projections. With a Chair who openly intends to communicate less, the risk of misunderstandings with markets is rising.

Macroeconomics

Fed funds Target Range Midpoint and Dot Plots Median



Source: Silex / Factset, 30/9/2026.
Past performance is not a guarantee of future performance.

Euro area: “The Achilles’ heel holds up”

The euro area has defied expectations. In the spring, expensive energy appeared likely to condemn the economy to stagnation; the summer painted a very different picture. Second-quarter GDP growth was revised to +0.6% q/q (+0.4% excluding Ireland), while the composite PMI rose to 53 in September, its highest level in more than three years, with both manufacturing and services now expanding, in Germany (53.8) as well as, more tentatively, in France (51.2).

Two weak spots remain. Consumers are still lagging behind, with retail sales slowing for three consecutive months. And Chinese competition has reached unprecedented levels: Beijing’s trade surplus with the European Union has exceeded \$30bn per month for five months in a row, while Friedrich Merz’s increasingly tough rhetoric makes the prospect of a trade conflict between Brussels and Beijing more credible.

Macroeconomics

On prices, the setback is real but contained. Headline inflation rose from +2.8% in June to +3.2% in August, driven by energy (+14.3% y/y), while core inflation remained subdued at +2.4% and services inflation fell to +3.0%, its lowest since 2021. **The ECB chose not to take any chances: after pausing in July, it unanimously raised the deposit rate to 2.50% on 10 September** and revised its 2027 and 2028 inflation forecasts higher.

Views differ on what comes next, even though markets broadly expect another hike in December. An energy-driven shock and an economy showing no signs of overheating argue for a pause. The real test will come this winter given the very low level of gas inventories (see the Oil section).

United Kingdom: “Gilts are not waiting for the BoE”

The UK economy weathered the summer better than expected. Second-quarter growth was revised up to +0.5% q/q (+1.4% y/y), while the composite PMI remained in expansion territory throughout the quarter. The labour market is gradually softening: unemployment has remained stuck at 4.9% for four months and PAYE data showed a loss of 26,000 jobs in August.

Private-sector wage growth has slowed to just +2.8% y/y, far from anything resembling a wage-price spiral. Inflation nevertheless accelerated again, to +3.1% y/y in August from +2.6% in June, driven by regulated energy tariffs, while producer prices suggest that higher costs are beginning to work their way through supply chains, even though core inflation remains stable at +2.6%.

The Bank of England kept Bank Rate unchanged at 3.75%, with three of the nine MPC members voting for a hike at both meetings. It also removed £120bn of long-dated Gilts from the pool of securities earmarked for sale under quantitative tightening. The move failed to calm the long end of the curve: **the 10-year Gilt yield rose above 5.2%, its highest since 2008, while the 30-year approached 5.9%, its highest since 1998.**

With public borrowing already running £8.1bn above the OBR’s projected path, the 28 October Autumn Budget will be the real test for Andy Burnham’s government.

Macroeconomics

China: “Factories hum, consumers sleep”

The quarter further widened the gap between the China that produces and the China that consumes. Retail sales slowed to +0.4% y/y in August, while fixed-asset investment contracted for a fifth consecutive month (-7.2% y/y), dragged down by property (-21.5%) but now also by industry.

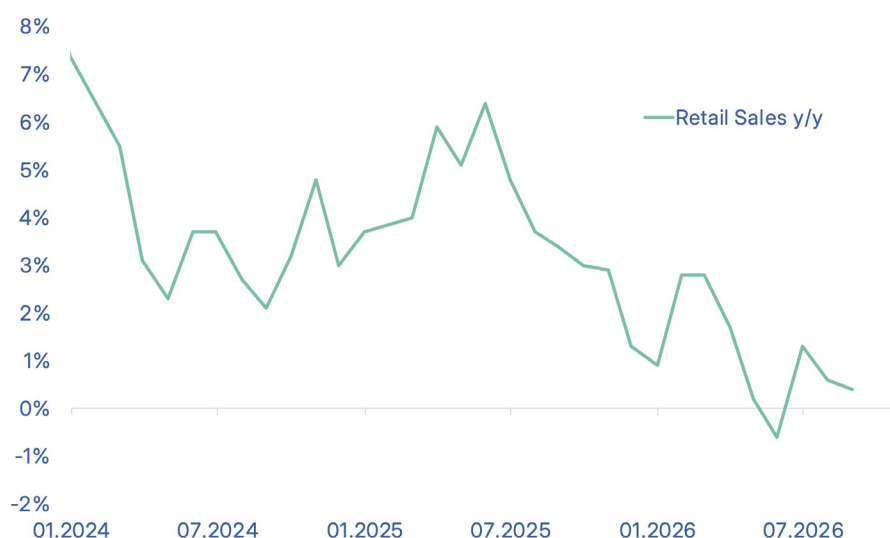
Consumer inflation fell back to +0.5% in July: the spring energy spike left virtually no trace. Industrial production remains resilient (+5.2% y/y in August), but with extreme polarisation between high-tech industries (robots +34.6%, integrated circuits +20.6%) and an overcapacity-plagued old economy, with cement production down 11.7%.

Externally, the machine appears unstoppable: the cumulative trade surplus reached \$805bn through August, ahead of 2025's record pace. Xi Jinping's visit to Washington in late September did little to change the picture, with the trade truce extended by only two months, tariffs reduced on around \$30bn worth of goods in each direction and the rare-earths dispute still unresolved.

Faced with the risk of missing its 4.5%-5.0% growth target, Beijing promised to “intensify countercyclical adjustment” through investment in the “Six Networks” (water, electricity, computing capacity, telecommunications, underground networks and logistics) alongside a handful of credit measures.

More of a helping hand than a bazooka: the package is unlikely to exceed 0.5% of GDP, and the domestic equity market, fresh from its worst quarter since 2022, was not convinced.

China : Retail Sales (y/y)



Source: Silex / Factset, 30/9/2026.

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Macroeconomics

India: “Growth cannot keep capital at home”

India confirmed its position as one of the world's fastest-growing major economies. GDP expanded by +7.8% y/y in the first quarter of fiscal year 2026-27 (April-June), well above the RBI's 7% forecast, supported by investment (+11.9%) and household consumption (+7.1%).

In early August, the Reserve Bank of India unanimously kept its repo rate unchanged at 5.25% while raising its growth forecast to +6.7%. But inflation has been rising month after month, reaching +4.82% y/y in August from +3.93% in May, prompting several economists to consider the possibility of a rate hike before the end of the fiscal year.

Markets tell a much weaker story. With oil close to \$100 and US yields above 5%, the energy import bill is rising, the interest-rate differential with the US is narrowing and the rupee has reached a record low of almost 97 against the dollar.

Foreign investors turned into net sellers again in September, with roughly \$2.7bn of outflows, the largest monthly withdrawal in six months, while the MSCI India fell 4.4% over the quarter. The trade dispute with Washington also remains unresolved, with negotiations continuing ahead of a deadline linked to punitive tariffs on purchases of Russian oil.

Japan: “The yen on life support”

Japan confirmed its singular place in the global cycle. Private-sector growth
The Bank of Japan accelerated the pace of tightening. Just three months after its June hike, it raised its policy rate to 1.25% in September, compared with an average pace of roughly one hike every six months since 2024.

The arguments were easy to find: nominal wages rising by +4.7% y/y, producer prices above 7% and inflation close to 2% (+1.9% y/y). Yet the BoJ failed to convince markets that it would maintain this pace, and investors now expect only one additional hike by December. It has some justification for caution: household spending fell for an eighth consecutive month in July (-3.6% y/y).

The yen remains the key variable. In late July, USD/JPY came close to 164 before **a coordinated intervention by Japan's Ministry of Finance and the US Treasury brought it back below 158**, with Washington using the opportunity to make clear that stronger monetary tightening was the quid pro quo for its support.

Macroeconomics

The yen ended the quarter 3.4% stronger against the dollar, at around 157, but owes more to the authorities than to fundamentals. The bond market remains unconvinced: the 10-year JGB yield moved above 3% for the first time since 1996, while the Takaichi government's temporary cut in the consumption tax on food (from 8% to 1% from April 2027) did little to reassure investors about the fiscal outlook.

Switzerland: “When everything goes according to plan”

The SNB had chosen to rely on the exchange rate rather than interest rates, and the quarter vindicated that strategy. EUR/CHF rose from around 0.92 in early July to almost 0.95 by the end of September, while the franc weakened by 3.4% against the dollar, becoming a popular funding currency as the ECB tightened policy.

The desired effect followed: inflation rose to +0.8% y/y in August, its highest since September 2024, helped by a renewed increase in import prices. The SNB therefore kept its policy rate unchanged at 0% on 24 September, with no shift in its communication, while slightly raising its 2026 inflation forecast to +0.7%.

The economy also surprised on the upside. GDP expanded by +1.5% q/q in the second quarter, its strongest increase since 2021, although chemicals and pharmaceuticals made a large contribution, while the KOF indicator rose from 103.5 in July to 109.1 in September.

The SNB raised its growth forecast to +1.5%-2.0%, from +1.0% in June. Consumers are the only real laggards. With inflation rising without threatening the target and the franc no longer weighing on exporters, a zero policy rate is likely to remain in place for several more quarters.

Bond Markets

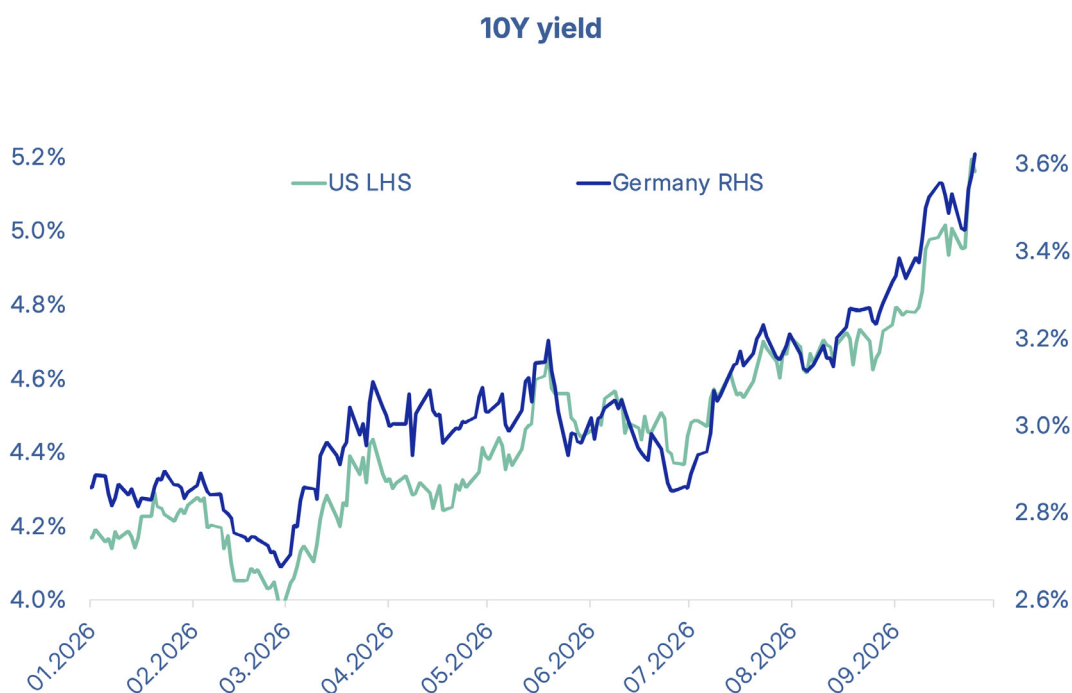
Rates: “A summer of bond carnage”

The quarter will be remembered for a broad and brutal global sell-off in government bonds, concentrated at the long end of the curve. The US 10-year yield rose from around 4.4% at the end of June to roughly 5.2% at the end of September, its highest since 2007, while the 30-year approached 5.5%, its highest since 2004.

The 10-year Bund climbed from 2.9% to nearly 3.6%, its highest since 2009, while the 30-year Gilt and 10-year JGB both reached levels not seen in almost three decades. Total-return performance was painful: -5.2% for the US 10-year, -5.0% for the Bund and -6.4% for the Italian BTP. Unlike the previous quarter, there was no late-period rally to offset the losses.

Higher inflation and renewed rate hikes explain part of the move, particularly at the front end. But the bulk of the adjustment came through the term premium. **Investors are being asked to absorb a wave of issuance, not only from governments but also — increasingly — from large technology companies funding data-centre investment in the bond market.**

Auction performance has reflected the pressure, with September’s US five-year sale among the weakest since 2018. The US Treasury stepped up buybacks of long-dated securities without reversing the trend; the announcement in August that the programme would be doubled was even interpreted by part of the market as a sign of weakness, briefly triggering a “debasement trade” (a shift out of the dollar and bonds into gold and bitcoin).



Source: Silex / Factset, 30/9/2026.

Past performance is not a guarantee of future performance.

Bond Markets

In the euro area, France added its own risk premium: the 10-year OAT-Bund spread widened from around 63bp at the end of June to more than 110bp by end-September, its highest since the 2011-12 sovereign-debt crisis, as the Lecornu government faces the challenge of passing the 2027 budget only months before the presidential election.

Credit: “Carry holds up, duration takes the hit”

Credit markets made it through the quarter without an accident, but not without losses. Every segment ended in negative territory, and the performance hierarchy tells the story of the shock: US investment grade, more sensitive to interest rates, lost 3.8%, compared with 2.6% for its European counterpart, while high yield limited the damage to -1.8% on both sides of the Atlantic. Rates, not default risk, did the damage.

Spreads remained close to historical lows for most of the quarter (US IG widened only from 76bp to 84bp) with meaningful nervousness emerging only towards quarter-end, when US HY spreads reached 308bp, their highest in five months.

The more significant development came from elsewhere: AI financing is becoming a feature of the credit market. According to J.P. Morgan AM, bond issuance by hyperscalers (the cloud giants building data centres) increased from \$109bn in 2025 to \$194bn in the first half of 2026 alone.

The market is absorbing the supply, but at a rising price: AI-related issuers are paying around 115bp over Treasuries, compared with 78bp for the IG market as a whole.

Carry remains supportive, with yields of around 6% on US IG and 8% on US HY, but spreads this tight offer little cushion against another rise in rates or a bout of supply indigestion. Selectivity is therefore essential, particularly among issuers most exposed to the AI investment cycle.

Equity Markets

Equities: “Earnings hold the line despite AI turbulence”

Equity markets held up, but the quarter shook the notion of AI supremacy.

The S&P 500 gained 2.3%, supported by third-quarter earnings expected to rise by 29% y/y, versus 26.7% expected at the end of June, and by the energy sector, which rallied nearly 17%. The Nasdaq-100 rose by just 0.6%, while the semiconductor index (SOX) fell 11%.

Doubts first emerged in July, when Alphabet raised planned 2026 investment spending to as much as \$205bn. Markets began to question the returns on spending that could approach \$1tn in 2027 across the six largest players, according to Moody's, as well as how that spending would be financed.

After a sharp correction followed by an August rebound led by software rather than semiconductors, the surge in yields became the dominant force in September, with financials falling more than 6% over the month and small caps ending the quarter sharply lower (S&P SmallCap 600: -7.7%).

Elsewhere, geography often mattered more than sectors. Europe ended the quarter close to flat (Stoxx Europe 600: -0.7%), but with a gap of almost six percentage points between the DAX (+0.8%) and the CAC 40 (-4.9%), the latter hurt by French political risk. In Japan, the TOPIX (+3.8%) held up better than the more semiconductor-heavy Nikkei.

Emerging markets declined (-2.8%), dragged down by India (-4.4%) and especially mainland China, where the MSCI China A fell 14.3%. The euphoria surrounding Chinese AI faded, with the CSI semiconductor index losing almost a third of its value since June.

Chinese equities listed offshore nevertheless gained 3.6% (MSCI China), further evidence that the two markets are increasingly driven by different forces. **Overall, earnings have supported equities, but markets may now become more sensitive to the level of interest rates:** with the US 10-year yield above 5% and the S&P 500 trading at around 20 times forward earnings, the margin for error is no longer particularly wide.

Currencies

Currencies: “The dollar : much ado about nothing?”

Over the quarter, the dollar barely moved (DXY: +0.3%), but that apparent stability masks a sizeable round trip. July and August were weak months for the currency, amid falling inflation, softer employment and an August “debasement trade” fuelled by concerns about US debt.

September reversed the move (+2.0%, its best month since June): a unanimous Fed and a more hawkish dot plot pushed the DXY back above 101, towards the top of the range it has occupied since April 2025.

The euro followed the opposite path, rising as high as 1.16-1.17 in August on expectations of a second ECB hike before falling back below 1.14 (-0.7% over the quarter).

Sterling ended broadly unchanged (+0.1%), with the 1.32 floor holding late in the period. The largest moves came from currencies whose central banks took opposite policy paths.

The yen gained 3.4% against the dollar, helped more by the joint Japanese-US intervention in late July than by the BoJ, whose decisions repeatedly triggered renewed weakness whenever markets viewed them as too cautious.

The Swiss franc, by contrast, was the quarter’s major loser (-3.4% against the dollar and -2.8% against the euro): the SNB stood still while the ECB tightened, much to the relief of a central bank that could hardly have asked for a better outcome

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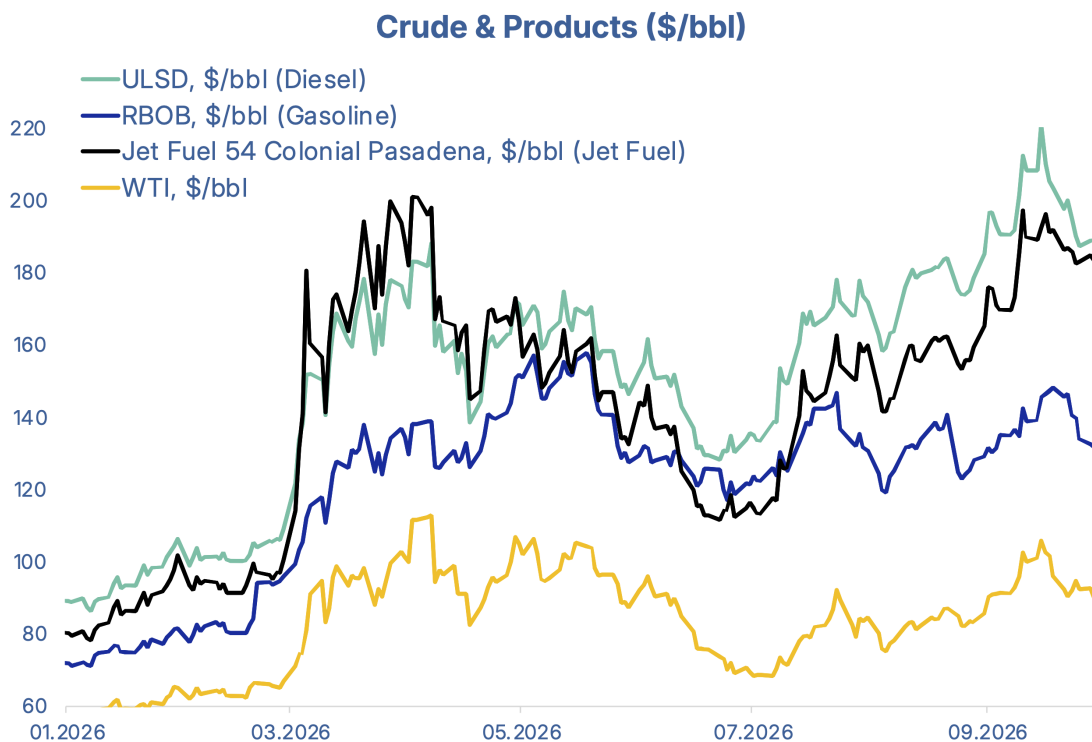
Commodities

Oil: “Hormuz improves, but the surplus will have to wait“

The scenario of a return to surplus, which the IEA had revived in the spring, did not survive the summer. The collapse of the US-Iran ceasefire once again paralysed Hormuz in July, while the Houthis threatened the Bab el-Mandeb Strait, through which the roughly 7 Mb/d exported by Saudi Arabia from its west coast now pass.

The temporary shutdown of Saudi Arabia’s East-West Pipeline kept Brent around \$110 in mid-September, before it ended the quarter near \$100 (+39%). The worst-case scenario was avoided thanks to the gradual recovery in flows: according to the Hormuz Strait Tracker, traffic through Hormuz exceeded 9 Mb/d by the end of September, up from less than 3 Mb/d at the end of July, or roughly half of normal traffic.

The real bottleneck lies further downstream, in refining. Between Gulf refineries being offline, Russian capacity impaired by Ukrainian strikes and China deliberately underutilising its facilities, diesel ended September near \$200 per barrel.



Source: Silex / NBS, 30/9/2026.

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Commodities

Washington's suggestion that it could restrict diesel exports pushed the Brent-WTI spread above \$10, helping explain WTI's more modest gain (+28% on a spot basis). At these price levels, demand destruction limits the scope for a sustained move materially above \$100.

For Europe, the bigger threat is gas: TTF surged 20% in August to around €70/MWh, with inventories less than 65% full at the end of August, compared with an average of 87% over the previous three years.

Precious metals: “Gold caught between two forces”

Gold gained 3.7% over the quarter, a figure that barely captures three months of sharp swings. After remaining broadly flat in July, it surged almost 10% in August to nearly \$4,700 per ounce, supported by the “debasement trade” triggered by the Treasury’s announcement that it would double its purchases of long-dated securities.

Silver briefly returned to \$70. September brought the rally to an abrupt end: the Fed’s rate hike, higher real yields and a rebounding dollar pushed gold down 6.3%, to below \$4,200. Bitcoin, another beneficiary of this trade against fiat currencies, gained more than 42% over the quarter.

The lesson extends that of the previous quarter: over shorter horizons, real yields still have the final say on gold. Fears of currency debasement can trigger spectacular moves, but as long as the Fed remains in tightening mode, they struggle to become a lasting trend.

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Rue du Général-Dufour 15
1204 Geneva - Switzerland

+41 22 321 17 00 / info@renalco.ch

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